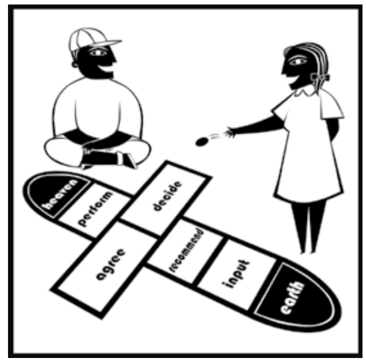
On Decision Making

By Olivier Serrat

Decisions, Decisions



A decision is the cognitive process of choosing between possible actions in a situation of uncertainty. By definition, the steps entailed lead to a final choice, that is, the selection of a sequence of activities among several alternative scenarios, based on values and preferences, purportedly resulting in a more optimal outcome.

In view of the resources organizations pool, decision making permeates all dimensions of corporate life, be they (i) strategic—related to the design of a long-term plan of action to achieve a particular goal, (ii) organizational—related to the way different parts and aspects of a group are arranged to deliver the goal, or (iii) operational—related to the way individuals and groups work on a daily basis to accomplish specific results toward the goal.[1] It follows that decision making is a conditioning ingredient of success in any venture. The stakes are high: organizations that make better, faster, and more effective decisions—both small, routine, and big, one-off decisions—will outrun competitors and outshine peers. Therefore, one might expect that organizations would put copious options on the table and invite sufficient evaluation to make certain the best choice emerges.

Decision making is a stream of inquiry, not an event. Decision-driven organizations design and manage it as such: they match decision-making styles to appropriate techniques and, wherever possible, encourage parties to play roles rife with dissent and debate; decision rights are part of the design.

On Decision-Making Techniques and Styles …

Inevitably, given the pressing omnipresence of decision situations, the world of organizations is not short of techniques. The main clusters articulate decision-making models, help choose between options, make financial decisions, improve decision making, organize group decision making, surface values and preferences, and decide whether to go ahead. Then again, whether the tools at hand are leveraged depends on styles that—born of the typology of the organization and associated configuration[2]—range from autocratic to unanimity-based decision making, each with its raison d'être and related pros and cons.

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[1] It follows that problems from suboptimal decision making—since no organization is perfect—will occur in the same areas: (i) strategy—for example, where decisions are made with too little regard to those who are affected by them; (ii) organization—for instance, where there are overlapping responsibilities between decision-making groups, leading to lack of direction or duplication of effort; and (iii) operations—such as where implementation can prove difficult due to inconsistent factual analysis.

[2] Henry Mintzberg circumscribed seven basic types: entrepreneurial, machine, diversified, professional, innovative, missionary, and political. (Undoubtedly, one can find elements of all these forms in any particular organization.) See Henry Mintzberg. 1989. *Mintzberg on Management: Inside Our Strange World of Organizations*. Simon and Schuster.

Figure 1: Decision-Making Techniques

Using Decision-Making Models
- The Kepner-Tregoe Matrix—making unbiased, risk-assessed decisions
- Observe–Orient–Decide–Act Loops—understanding the decision cycle
- The Recognition-Primed Decision Process—making good decisions under pressure
- The Vroom–Yetton–Jago Decision Model—deciding how to decide

Choosing Between Options
- The Analytic Hierarchy Process—choosing by weighing up many subjective factors
- Conjoint Analysis—measuring buyer preferences
- Decision Trees—choosing by projecting expected outcomes
- The Futures Wheel—identifying future consequences of a change
- Grid Analysis—making a choice balancing many factors
- Paired Comparison Analysis—working out relative importances
- Pareto Analysis—using the 80:20 rule to prioritize
- The Quantitative Strategic Planning Matrix—choosing the best strategic way forward

Making Financial Decisions
- Break-Even Analysis—determining when a product becomes profitable
- Cash Flow Forecasting—testing the viability of a project
- Cost–Benefit Analysis—evaluating quantitatively whether to follow a course of action
- Net Present Value and Internal Rate of Return—deciding whether to invest

Improving Decision Making
- Blindspot Analysis—avoiding common fatal flaws in decision making
- Critical Thinking—developing the skills for successful thinking
- Decision Making: Cautious or Courageous?—understanding risk preference and making better decisions
- Decision Making Under Uncertainty—making the best choice with the information available
- The Ladder of Inference—avoiding jumping to conclusions
- Linear Programming—optimizing limited resources
- Monte Carlo Analysis—bringing uncertainty and risk into forecasting
- Pros and Cons—listing the advantages and disadvantages of each option
- Reactive Decision Making—making good decisions under pressure
- Satisficing—examining alternatives only until an acceptable one is found
- Six Thinking Hats—looking at a decision from all points of view

Organizing Group Decision Making
- Avoiding Groupthink—avoiding fatal flaws in group decision making
- The Delphi Technique—achieving well thought-through consensus among experts
- Hartnett's Consensus-Oriented Decision-Making Model—developing solutions collectively
- Multi-Voting—choosing fairly between many options
- The Nominal Group Technique—prioritizing issues and projects to achieve consensus
- Organizing Team Decision Making—reaching consensus for better decisions
- The Stepladder Technique—making better group decisions

Surfacing Values and Preferences
- The Foursquare Protocol—learning to manage ethical decisions
- What Are Your Values?—deciding what is most important in life
- Spiral Dynamics—understanding how people's values may affect their decision making

Deciding Whether to Go Ahead
- Force Field Analysis—analyzing pressures for and against change
- Go-No-Go Decisions—deciding whether to proceed
- Impact Analysis—identifying the unexpected consequences of a decision
- Plus, Minus, Interesting—weighing the pros and cons of a decision
- Risk Analysis—evaluating and managing risks
- "What If" Analysis—making decisions by exploring scenarios

Source: Author.

Figure 2: Decision-Making Styles

Style	Characteristics
Autocratic	• Instantaneous; relied upon in times of crisis • Quality of decision may suffer; less likely to be accepted
Consul-tative	• Generates more ideas and information • Takes longer; leader still holds final say; fewer chances of acceptance and commitment by others
Minority Rule	• Very fast; decision by "experts" • Alternative points of view not necessarily taken into account; not representative of majority
Majority Rule	• Applicable to any group size; most people are familiar with this procedure • Win-lose mentality; lack of commitment by losers; issues become personalized
Consensus	• Thoroughly critiqued decision based on common principles and values; backed by all members; elicits strong commitment • Time-consuming; requires mature populations; difficult in large groups; can beget lowest common denominator decisions
Unanimity	• Most comfortable; based on common principles and values; elicits strongest commitment • Near-impossible to achieve with more than two persons

Source: Author.

… and What Typically Determines Their Use

Ten primary criteria shape decision making. These comprise the decision environment[3] that may influence the decision style, the complexity of the decision being made, the value of the decision's desired outcome, alternative scenarios that have the potential to lead to the desired outcome, the information available to support the decision-making process and cognitive biases to its selection and interpretation, the quality requirements of the decision, the personalities of those involved in decision making, the time available to conduct the decision-making process, the necessary level of commitment to or acceptance of the decision, and the impact on valued relationships that the choice of decision style may have.

> *It's not hard to make decisions when you know what your values are.*
>
> —Roy Disney

Sure enough, several of these criteria can hold at the same time and amplify one another. Assuming organizations do not eschew problem analysis to rush decision making—a big, hairy, and audacious hypothesis,[4] that, four recurring themes regularly conspire to warp decisions. They have to do with bounded rationality, cognitive bias, personality, and free will. First, the information at hand, the information-processing ability of the mind, and what time is available bear strongly on decision making. (Bounded rationality does not often conduce optimal decisions by "maximizers;" again and again, "satisficers" reach for what solution is good enough.) Second, cognitive biases creep into decision-making processes. (A select list includes anchoring and adjustment, attribution asymmetry, choice-supportive bias, framing bias, groupthink, incremental decision making and escalating commitment, optimism or wishful thinking, premature termination of search for evidence, inertia, recency, repetition bias, role fulfillment, selective perception, selective search for evidence, source credibility bias, and underestimates of uncertainty and the illusion of control.) Third, personality profiles color cognitive

3 The decision environment would be a function of an organization's organizational context, organizational knowledge, inter- and intraorganizational relationships, and the external environment.

4 Manifestly, a problem should first be analyzed with effective questions so that the data and information gathered can afterward inform a course of action.

styles. (Psychological traits revealed by the Myers-Briggs Type Indicator along four bipolar dimensions—extroversion and introversion, sensing and intuiting, thinking and feeling, and judging and perceiving—correlate with decision-making styles. In any organization, the predominance of one psychological type will sway approaches to decision making. What is more, national or cross-cultural peculiarities exist across entire societies.) Fourth, advances in social neuroscience increasingly question whether and in what sense rational agents exercise control over their actions or decisions, thereby testing the easy presumption of free will. What hopes, after that, are there for better decision making?

Toward Decision-Driven Organizations

"It is hard to imagine a more stupid or more dangerous way of making decisions than by putting those decisions in the hands of people who pay no price for being wrong," Thomas Sowell reasons. Indeed, many organizations treat decision making as an event, the performance of which is more often than not the prerogative of a few—not necessarily best equipped—where there is obdurate proclivity for formal authority.[5]

> *Most discussions of decision making assume that only senior executives make decisions or that only senior executives' decisions matter. This is a dangerous mistake.*
>
> —Peter Drucker

To enrich decisions in the majority of decision-making styles, two related concerns should be concurrently raised and addressed:

- Quoting Isaac Azimov, "It is change, continuing change, inevitable change, that is the dominant factor in society today. No sensible decision can be made any longer without taking into account not only the world as it is, but the world as it will be …" Too often, decision making is considered an exercise in advocacy; it is, rather, a process of inquiry. How might decision making encompass the larger organizational context, organizational knowledge, inter- and intraorganizational relationships, and external environment that ultimately determine the success of a selected course of action?
- Decision rights[6] are a vital but insufficiently understood component of organizational design. Who is empowered to make what types of decisions has profound effects on day-to-day performance; and yet, allocating decision rights to maximize that can be controversial and therefore difficult. To deepen the decision-making process, one should assign single point responsibility and accountability along a more delineated continuum of inputs, outputs, and outcomes. Where should decision rights be lodged in an organization and can one describe and assign more precise decision-making roles?

On Decision Making as a Process

Decision making is where thinking and doing overlap. For that to happen profitably in an organization, a decision must be logically consistent with what the parties to it know, want, and agree they can do. Nothing, then, could do decision making a greater disservice than to treat it as a single, isolated event, not the clearly defined process it inherently is or rather should be.

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[5] In the 21st century, many still assume the lines and boxes on an organizational chart are a key determinant of performance. Hierarchy is passé: Friedrich Hayek understood that as early as 1945. See Friedrich Hayek. 1945. The Use of Knowledge in Society. *American Economic Review*. 35 (4), pp. 519–530. Rather, an organization's structure should be in tune with its decisions with consideration to quality, speed, yield, and effort. Marcia Blenko, Michael Mankins, and Paul Rogers identify 10 drivers that may undermine or support effective decisions, for assessment using a four-point Likert scale from strongly disagree to strongly agree. They are (i) structure (our structure helps—rather than hinders—the decisions most critical to our success); (ii) roles (individuals understand their responsibilities and accountabilities in our most critical decisions); (iii) processes (our processes are designed to produce effective, timely decisions and action); (iv) information (the people in critical decision roles have the data and information they need when and how they need them); (v) measures and incentives (our measures and incentives focus people on making and executing effective decisions); (vi) priorities (people understand their priorities well enough to be able to make and execute the decisions they face); (vii) decision style (we make decisions in a style that is effective, for example, that appropriately balances inclusiveness with momentum); (viii) people (we put our best people in the jobs where they can have the biggest decision impact); (ix) behaviors (our leaders at all levels consistently demonstrate effective decision behaviors); and (x) culture (our culture reinforces prompt, effective decisions and action throughout the organization). See Marcia Blenko, Michael Mankins, and Paul Rogers. 2010. The Decision-Driven Organization. *Harvard Business Review*. June. pp. 54–62.

[6] The term is analogous to property right, namely, the exclusive authority to determine how a resource is used. When decision makers themselves do not feel the true cost of decisions, incremental poor even if small choices can compound into severely negative outcomes. By attributing unequivocal ownership of decision-making privileges, unambiguous responsibility can be ascribed for what decisions are made. This means that decision makers can both reap the benefits of a good choice and pay the price of a bad one. Allowing a person's decision rights to fructify based on how well he or she exercises them makes better sense than letting privileges accumulate based on rank or seniority. The key notion is that decision rights should be earned, not granted, yet reviewed and updated routinely.

> *Painting is something that takes place among the colors, and … one has to leave them alone completely, so that they can settle the matter among themselves. Their intercourse: this is the whole of painting. Whoever meddles, arranges, injects his human deliberation, his wit, his advocacy, his intellectual agility in any way, is already disturbing and clouding their activity.*
>
> —Rainer Maria Rilke

Helpfully, David Garvin and Michael Roberto compare advocacy and inquiry approaches to decision making. Advocacy tends to push a single solution. To make a compelling case for the proposal they hope to sell, proponents assert positives and downplay negatives; they offer no alternatives—instead, a go-no-go decision on the option is forced. The pitfalls of advocacy are many: reliance on one solution precludes the chance to explore alternatives; personalities come into play and disagreements grow fractious, probably antagonistic; behind-the-scenes maneuvering comes into play; the solution inevitably produces winners and losers—losers, to the extent they can, continue to fight the decision in the execution phase, thereby stretching decision cycle time.[7] In contrast, the goal of inquiry is to reach agreement on a course of action. Because people hold diverse interests, inquiry makes convictions visible for testing; generates multiple alternatives; evaluates feasibility according to well-defined criteria using a range of techniques; fosters collaboration to work through differences of ideas, concepts, and assumptions; and helps arrive at an agreeable solution. Rather than suppress dissent and debate, inquiry encourages constructive conflict, consideration, and closure with perceived fairness; patently, it produces decisions of higher quality—decisions that not only advance an organization's objectives but are also reached in a timely manner and can be implemented effectively.

Figure 3. Advocacy and Inquiry in Decision Making

Dimension	Advocacy	Inquiry
Concept of decision making	A contest	Collaborative problem solving
Purpose of discussion	Persuasion and lobbying	Testing and evaluation
Participants' role	Spokespeople	Critical thinkers
Patterns of behavior	Strive to persuade others; defend your position; downplay weaknesses	Present balanced arguments; remain open to alternatives; accept constructive criticism
Minority views	Discouraged or dismissed	Minority views
Outcome	Winners and losers	Outcome

Source: David Garvin and Michael Roberto. 2001. What You Don't Know About Making Decisions. *Harvard Business Review*. September. pp. 108–116

[7] Decision cycle refers to the continual use of mental and physical processes exercised by an entity to reach and implement decisions.

On Decision Rights

Marcia Blenko, Michael Mankins, and Paul Rogers make out six steps in which to (re)organize around decisions. First, organizations should know which decisions have a disproportionate impact on organizational performance—a decision inventory is a prerequisite to that.[8] Second, they should determine where those decisions should happen. Third, they should organize the structure of decision nodes around sources of value. Fourth, they should figure out what level of authority decision makers need, regardless of status, and give it to them. Fifth, they should align other parts of the organizational system, such as processes, data, and information—including their flows, measures, and incentives—to support decision making and execution. Sixth, they should help managers develop the skills and behaviors necessary to make decisions and translate them into action quickly and well.

Decision rights are the coin of the realm. In a small organization, an entrepreneur might know all about his or her business and make every decision with minimal supplementary data and information. However, as the scale and scope of operations grow, an entrepreneur will find it more difficult to decide. In a world of large organizations, one solution to this problem is to convey data and information to whoever possesses decision rights; another is to grant decision rights to whoever holds data and information.[9] To strike a balance, modern organizations turn to both solutions:[10] the falling prices of information and communication technologies have cut the costs of transmission and the growingly intense use of these technologies in many organizations confirms they convey more data and information to those with decision rights; at the same time, the common reliance on teams and other collaboration mechanisms implies that organizations are decentralizing decision rights. Naturally, the mix of solutions—and the centralization or decentralization of relationships it implies—is unique to the organization: yet, it is still a rare organization—especially in the public sector—that actually studies the optimal allocation of its stock of decision rights and acts on that knowledge to reap the fullest advantage.

Figure 4: Benefits and Potential Values from Decision Rights

Provides structure to decision-making forums	Improves decision-making efficiency; reduces time (and money) wasted on ineffective or unnecessary meetings
Provides structure to decision-making forums	Improves efficiency in making and socializing decisions as stakeholders feel ownership over the product
Engages the right stakeholders in the decision-making process	Creates ownership and accountability within individuals; clarifies the escalation process
Establishes a single point of accountability for each decision	Pinpoints the individual/role responsible for the decision; increases transparency and potential for collaboration across the organization
Creates a common understanding of who is responsible for each decision	Reduces delay and duplicated efforts that can result from confusion over owners; reduces the misconception that everyone who is consulted has a veto power over the decision
Pushes decision making close to "where the work is done"	Empowers employees; enhances creativity and innovation as employees feel a sense of ownership; creates efficiencies by allowing less-costly resources to execute effectively and reducing bottlenecks

Source: Tiffany McDowell and Jennifer Radin. 2011. *It's Your Decision*. Deloitte Development Ltd.

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8 Obviously, these do not all reside at the top. Offices and departments, teams too for that matter, ought to develop then winnow their own lists of critical decisions to ascertain the value at stake and the degree of attention required.

9 The costs associated with the first approach stem from (possibly inaccurate) transmission of data and information from the source to the decision maker and what delays the process occasions. Those of the second approach owe to the risk that data and information are not necessarily aligned with the objectives and motivations of the individual to whom the decision rights are now given.

10 Those in favor of centralization usually contend it ensures uniformity in standards, promotes coherence and coordination, minimizes duplication, builds economies of scale, and reduces inequalities. Champions of decentralization think it enhances autonomy and empowerment, augments participation, and fosters creativity and innovation. It stands to reason that one should even out the two.

> *If we can agree that the economic problem of society is mainly one of rapid adaptation to changes in the particular circumstances of time and place, it would seem to follow that the ultimate decisions must be left to the people who are familiar with these circumstances, who know directly of the relevant changes and of the resources immediately available to meet them. We cannot expect that this problem will be solved by first communicating all this knowledge to a central board which, after integrating all knowledge, issues its orders. We must solve it by some form of decentralization.*
>
> —Friedrich Hayek

There is more: decentralization is one thing; a more differentiated chain of deliverables for decision making is another. Establishing what helps pinpoint who and demarcate how. Paul Rogers and Marcia Blenko[11] offered early guidance before the last article cited: advertising a tool of Bain & Company , Inc., they further untangle the decision-making process by identifying various activities that must occur for a decision to be made well. The name of the tool is RAPID: each letter in the acronym stands for an activity associated with decision making. To begin, someone must "recommend" that a decision be made. Next, "input" will likely be required to inform the decision. Down the road, depending on corporate governance arrangements, one or several persons will formally "agree" to a recommendation before one or several persons wield the authority to "decide." Subsequently, someone must, of course, "perform" the decision, meaning, execute it. The acronym does not suggest a strict sequence in which the five activities must occur, certainly in the preparatory stages: reality is iterative and RAPID merely happens to be a handy mnemonic. (This writer, for instance, believes that inputs should precede any recommendation, not just follow it, and may actually be required throughout the process.)[12] In addition, agents may be assigned more than one activity. (The person recommending the decision may eventually be tasked with carrying it out.)

Paraphrasing Albert Camus, an organization's value is the sum of the decisions it makes and executes. For sure, even good decisions such as may have been reached with RAPID occasionally engender bad outcomes. But redistributing decision rights because of a bad outcome—even though they were well allocated in the first place—will not help and could make matters worse. One should not confuse a particular outcome with the process itself.

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11 Paul Rogers and Marcia Blenko. 2006. Who Has the D? How Clear Decision Roles Enhance Organizational Performance. *Harvard Business Review*. January. pp. 53–61.

12 One might say that every decision follows from previous decisions and both enables and prevents other future decisions. Consequently, inputs will be required before, during, and after a decision.

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Further Reading

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For further information

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